Decision 06-07-012 July 20, 2006

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SOUTHERN CALIFORNIA GAS COMPANY for Authorization to (1) Obtain Long-term Debt Capital Not to Exceed the Equivalent of U.S. $400,000,000; (2) Include Certain Features in Debt Securities or Enter into Certain Derivative Transactions, Including Interest Rate Swaps, Caps and Collars, and/or Currency Exchange Contracts, to Lower Cost of Money; (3) Issue and Sell Not More than U.S. $100,000,000 Par or Stated Value of Preferred or Preference Stock; (4) Hedge Issuances of Debt Securities and Preferred or Preference Securities; (5) Obtain Exemptions from the Competitive Bidding Rule; and (6) Take All Other Necessary, Related Actions. (U 904 G)	Application 06-04-004 (Filed April 3, 2006)

OPINION AUTHORIZING THE ISSUANCE OF DEBT AND PREFERRED STOCK

I. Summary

This opinion grants Southern California Gas Company (SoCalGas) the authority to issue $500 million of securities, consisting of $400 million long-term debt and $100 million preferred stock, as requested in Application (A.) 06-04-004. This opinion also authorizes SoCalGas to: encumber utility property, including its accounts receivable, to secure Securities; enter into hedges subject to the conditions enumerated in the body of this opinion; and, exempt certain Debt

Securities from the Commission's Competitive Bidding Rule as enumerated in the body of this order.

II. Background

SoCalGas is a public utility engaged primarily in the purchase, distribution, transportation and sale of natural gas throughout most of southern California and portions of central California. It supplies natural gas to 20 million end-use customers throughout a 23,000 square-mile service territory including the City of Los Angeles. SoCalGas also transports gas to about 1,300 non-core customers. It owns underground storage reservoirs, natural gas transmission pipelines, compressor plants, distribution pipelines, services and appurtenant meters, metering and regulating stations, booster stations, office buildings, general shops, warehouse for materials and supplies, and other property necessary in the conduct of its business.

III. Request

SoCalGas seeks authorization to issue $500 million of Securities consisting of $400 million long-term debt and $100 million preferred stock with enhancement features and to extend those enhancement features to its unused financing authority granted in Decision (D.) 96-09-036 and D.03-07-008. The enhancement features consist of put options, call options, sinking funds, interest rate swaps, caps and collars, currency swaps, credit enhancements, capital replacement, interest deferral, special-purpose entity transactions and delayed drawdown. Details of each enhancement feature are set forth in the application.

SoCalGas also seeks authorization to utilize its accounts receivable to secure Securities, and enter into hedges to manage interest rate risk, and exemption from the Commission's Competitive Bid Rule.

IV. Discussion

SoCalGas used a three year capital forecast covering the years 2006 through 2008 to determine its future financing needs. That forecast includes uses of funds such as capital expenditures and maturing debt obligations, and sources of funds including cash flow from operations, as detailed in Attachment D to the application. Current forecast of annual capital expenditures range between $400 and $500 million during each of the years 2006 through 2008.

SoCalGas was recently authorized to issue $600 million of long-term debt and $100 million of preferred stock pursuant to D.96-09-036 and an additional $715 million of long-term debt pursuant to D.03-07-008. Of those authorized amounts, $182 million consisting of $82 million long-term debt and $100 million preferred stock remains to be issued.

That authorized long-term debt and preferred stock remaining to be issued is insufficient to meet SoCalGas' ongoing capital spending requirements, replacement of maturing debt, and redemption of debt and preferred stock. Hence, SoCalGas seeks authorization to issue an additional $500 million of securities, consisting of $400 million long-term debt and $100 million preferred stock.

SoCalGas expects that approval of its securities request will provide it with sufficient flexibility to meet its financial and service obligations. The principal amount, form, terms and conditions of its Securities to be issued will be determined by SoCalGas' board of directors or management according to market conditions at the time of sale or issuance. The types of Securities that SoCalGas proposes to issue include Secured Debt, Unsecured Debt, Overseas Indebtedness, Medium-Term Notes, Direct Long-Term Loans, Accounts Receivable Financing, Variable-Rate Debt, Fall-Away Debt,[1] Subordinated Debt, and Preferred Stock. A detailed explanation of each of these securities is set forth in the application.

SoCalGas intends to apply the net proceeds from the proposed debt and preferred capital financing for the expansion and betterment of utility plant and discharge of its indebtedness or preferred stock retired or to be retired at maturity through sinking fund payments, redemption, prepayment, repurchase or otherwise.

SoCalGas' request to issue long-term debt and preferred stock is subject to §§ 816, *et seq*. of the Public Utilities Code.[2] The Commission has broad discretion under §§ 816, *et seq*. to determine if a utility should be authorized to issue debt and preferred stock. Where necessary and appropriate, the Commission may attach conditions to the issuance of debt and preferred stock to protect and promote the public interest.

A. Issuance of Debt Securities

SoCalGas has substantiated that its $500 million securities request is necessary to satisfy its 2006 through 2008 needs for financing capital expenditures, acquiring property, and retiring or refunding securities. These purposes are authorized by § 817 and, as required by § 818, are not reasonably chargeable to operating expenses or income. Therefore, we will grant SoCalGas authority under § 816, *et seq*. to issue to its requested long-term debt and preferred stock for the aforementioned purposes, as detailed in the application.

[1] Fall-away debt is debt that is secured upon issuance for a limited period of time and subsequently converted into unsecured debt.

[2] All statutory references are to the Public Utilities Code unless otherwise stated.

We will also grant SoCalGas authority to apply the enhancement features identified in the body of its application on the unused financing authority granted in D.90-09-036 and D.03-07-008.

Consistent with § 824, SoCalGas shall maintain records to identify the specific long-term debt and preferred stock issued pursuant to this Opinion, and demonstrates that proceeds from such debt and preferred stock have been used only for the purposes authorized by today's Opinion**.**

SoCalGas may allocate the authorized debt and preferred stock among the authorized purposes as it deems necessary. SoCalGas may also issue any combination of long-term debt and preferred stock, as long as the total amount issued pursuant to this Opinion does not exceed $400 million of long-term debt and $100 million preferred stock.

B. Encumbrance of Utility Property

SoCalGas seeks authority to use its accounts receivable to secure Debt Securities. This request to encumber utility property is subject to § 851 which states, in relevant part, that no utility shall encumber any part of its plant, system, or other property necessary or useful in the performance of its duties to the public, or any franchise or permit or right there-under without first having secured from the commission an order authorizing it to do so.

Consistent with previous Commission decisions, we will authorize SoCalGas to encumber its accounts receivables to improve the terms and conditions of the Debt Securities and to lower SoCalGas' overall cost of money for the benefit of ratepayers.[3]

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[3] See, for example, D.05-04-003 (2005) mimeo., p. 10, Ordering Paragraph 4.

C. Hedging Requirements

SoCalGas seeks authority to use hedges to manage interest rate risk, as detailed in its Application. For example, at a time SoCalGas may have an immediate need for funds it may be precluded from acting on a low-cost funding opportunity during a time of market volatility due to legal, regulatory, and administrative matters. Issuance-hedging strategies will enable SoCalGas to enter financial markets at times when interest rates or other circumstances appear more favorable. Hence, SoCalGas seeks authority to enter into hedging contracts.

Consistent with previous Commission decisions,[4] we will authorize SoCalGas to enter into hedging transactions subject to the same conditions imposed in D.03-07-008, its most recent financing application. These conditions include:

1. Separately report all interest income and expense (as recorded for ratemaking purposes) arising from all hedging transactions in its regular report to the Commission.
2. Hedging transactions will not exceed at any time 30% of SoCalGas' total long-term debt outstanding.
3. All costs associated with hedging transactions shall be subject to review in SoCalGas' cost of capital proceedings or other appropriate proceedings.
4. Hedging transactions carrying potential counterparty risk must have counterparties with investment grade credit ratings.
5. SoCalGas will provide the following available to Commission staff within 30 days of a request: (i) all terms, conditions, and other details of hedge transactions; (ii) rationale for the hedge transactions; (iii) estimated costs for the "alternative" or

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[4] See, for example, D.03-07-008, D.03-12-004, D.96-05-066, and D.95-09-023.

unhedged transactions; and (iv) copy of the hedge agreements and associated documentation.

D. Competitive Bidding Rule Exemptions

Resolution No. F-616, issued on October 1, 1986, requires utilities to issue debt using competitive bids. The purpose of this requirement, known as the Competitive Bidding Rule, is to reduce the cost of debt issued by utilities. The Resolution also provides for utilities to seek an exemption from the Competitive Bidding Rule for debt issues in excess of $200 million. An exemption request will only be granted upon a compelling showing by a utility that because of the size of the issues, an exemption is warranted.

SoCalGas seeks exemptions from the Competitive Bidding Rule so that it may have flexibility to meet its financing requirements on the most favorable terms available and to lower its overall cost of money for the benefit of ratepayers. This is because the size of its debt offerings may be determinative of whether competitive bidding or a negotiated offering will result in the lowest cost. SoCalGas explains that in a competitively bid offering, the investment community is divided into competing bidding syndicates, with fewer participants and increased risk for each participant. Further, competitive bidding eliminates participation by the European and Japanese markets because competitive bidding is not currently available in those markets.

SoCalGas goes on to explain that competitive bidding tends to fragment the capital commitment and placement capabilities of underwriters, who must work against each other and have less time to gauge and build market demand for an offering. In contrast, in a negotiated offering, a single underwriting syndicate can be formed that consists of a greater number of participants and provides greater flexibility to adjust the timing and terms of a proposed debt offering to meet changing market conditions.

It is for the above stated reasons that SoCalGas seeks exemptions and modifications from the competitive bidding rule. The requested exemptions and modifications are:

1. Permit telephonic competitive bidding so that SoCalGas may telephonically, or through other electric means such as e-mail, invite the submission of bids and receive bids by telephone or through other electronic means from two or more underwriters or groups thereof, in lieu of newspaper publication of an invitation for bids and the submission and opening of sealed written bids.
2. Accelerate, postpone or cancel the scheduled date and time for the receipt of bids and/or vary the terms and provisions of the Debt Securities submitted for bid.
3. If appropriate, to reject all bids and to telephonically, or through other electronic means, request resubmission of bids for Debt Securities with the same or other terms and provisions.
4. Eliminate the one-day notice requirement to solicit bids.

SoCalGas' request for these Competitive Bidding Rule exemptions and modifications is granted on the basis that they are consistent with the terms of Resolution No. F-616; the Commission has routinely granted SoCalGas and other utilities similar exemptions and modifications[5] with no discernable adverse impacts on the utilities, their customers, or the public at large; and, on SoCalGas' representation that granting the exemptions and modifications will enable it to obtain debt in a manner advantageous to SoCalGas and its ratepayers. We make

[5] See, for example, D.04-10-037 (2004) mimeo., pp. 50 and 51; D.03-12-004, mimeo., pp. 32 and 33; and, D.03-7-008 (2003) mimeo., p. 27.

no finding regarding the reasonableness of the rates, terms, and conditions of debt issued by SoCalGas pursuant to the exemptions and modifications granted herein. SoCalGas shall provide compelling evidence to substantiate future exemption requests from the competitive bidding rule.

E. Reporting Requirement

GO 24-B requires utilities to submit a monthly report to the Commission that contains, among other things: (i) the amount of debt and preferred stock issued by the utility during the previous month; (ii) the total amount of debt and preferred stock outstanding at the end of the prior month; (iii) the purposes for which the utility expended the proceeds realized from the issuance of debt and preferred stock during the prior month; and (iv) a monthly statement of the separate bank account that the utility is required to maintain for all receipts and disbursements of money obtained from the issuance of debt and preferred stock. SoCalGas shall comply with GO 24-B.

V. Fee

Whenever the Commission authorizes a utility to issue debt and preferred stock, the Commission is required to charge and collect a fee pursuant to §§ 1904(b) and 1904.1. A fee is not applicable on any such issues used to guarantee, take over, refund, discharge, or retire any stock, bond, note, or other evidence of indebtedness on which a fee has theretofore been paid to the Commission. (§ 1904.1.)

SoCalGas calculated that fee to be $262,000, as detailed in Schedule X of its Attachment D to the application. For the purpose of calculating this fee, it separated its long-term debt request from its preferred stock request and applied the statutory descending rate fee on each type of security, as if it filed two separate applications for financing authority. Because of a descending rate structure, this resulted in an over calculation of the fee. The appropriate fee should be based on the total $500 million financing request. The appropriate fee is $256,000.[6]

The authority granted by this order shall not become effective until SoCalGas remits the $256,000 fee to the Commission's Fiscal Office.

VI. California Environmental Quality Act

Under the California Environmental Quality Act (CEQA) and Rule 17.1 of the Commission's Rules of Practice and Procedure (Rules), we must consider the environmental consequences of projects that are subject to our discretionary approval.[7] Thus, we must consider whether approval of this application will alter an approved project, result in new projects or change operations in ways that have an environmental impact.

SoCalGas intends to use the proposed financing proceeds for construction expenditures and acquisition of property or to reimburse SoCalGas for money it has expended for those purposes. This decision does not authorize any capital expenditures or construction projects. To the extent capital expenditures are financed with the proceeds of the long-term debt and preferred stock issued pursuant to this decision, CEQA review should occur as needed through the regulatory processes applicable to each capital project.

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[6] The fee is assessed on the total $500 million of authorized debt and preferred stock issuances as follows: ($2 times ($1,000,000/$1,000) plus ($1 times $9,000,000/$1,000) plus ($0.5 times $490,000,000/$1,000) equals $256,000.

[7] Pub. Resources Code Section 21080.

VII. Category and Need for Hearings

SoCalGas requested that this matter be categorized as ratesetting. By Resolution ALJ 176-3170, dated April 13, 2006, the Commission preliminarily determined that this was a ratesetting proceeding and that a hearing would not be necessary.

Notice of the application appeared in the Commission's Daily Calendar of April 11, 2006. There were no protests to the application. Based on the record, we affirm that this is a ratesetting proceeding, and that a hearing is not necessary.

VIII. Waiver of Comment Period

This is an uncontested matter in which the decision grants the relief requested. Therefore, the otherwise applicable 30-day period for public review and comment is being waived, pursuant to § 311(g)(2).

IX. Assignment of Proceeding

John A. Bohn is the Assigned Commissioner and Michael Galvin is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. SoCalGas requests authority to issue $500 million of securities consisting of $400 million long-term debt and $100 million preferred stock.

2. There were no protests to this application.

3. SoCalGas has available $182 million, consisting of $82 million long-term debt and $100 million of preferred stock, of authorized securities still to issue.

4. SoCalGas has a reasonable need to issue $500 million of securities during 2006 – 2008 to finance capital expenditures, replace maturing debt, and redeem debt and preferred stock.

5. SoCalGas seeks authority under § 851 to issue First and refunding mortgage bonds and to use its accounts receivable to secure its debt.

6. SoCalGas requests authority to issue many different types of Debt Securities and preferred stock using a wide variety of means.

7. SoCalGas requests authority to use hedges to manage the risks associated with interest rate volatility.

8. Resolution F-616 requires utilities to issue debt using competitive bids. The Resolution also provides for exemptions from the Competitive Bidding Rule for debt issues in excess of $200 million and debt that must be obtained on a negotiated basis such as variable-rate debt.

9. SoCalGas represents that granting the requested exemptions from, and modifications to the Competitive Bidding Rule will enable it to issue securities in a manner that is advantageous to SoCalGas and its ratepayers.

10. GO 24-B requires utilities to submit a monthly report to the Commission that contains, among other things: (i) the amount of debt and preferred stock issued by the utility during the previous month; (ii) the total amount of debt and preferred stock outstanding at the end of the prior month; (iii) the purposes for which the utility expended the proceeds realized from the issuance of debt and preferred stock during the prior month; and (iv) a monthly statement of the separate bank account that the utility is required to maintain for all receipts and disbursements of money obtained from the issuance of debt and preferred stock.

11. A.06-04-004 does not propose, and today's Opinion does not authorize, any specific new construction or changes in use of existing assets and facilities.

12. Notice of A.06-04-004 appeared in the Commission's Daily Calendar. There were no protests or other responses to A.06-04-004.

13. In Resolution ALJ 176-3170 issued on April 13, 2006, the Commission preliminarily determined that this proceeding should be categorized as ratesetting and that hearings would not be necessary.

Conclusions of Law

1. This is a ratesetting proceeding.
2. There is no need for hearings.
3. The application should be granted as requested.
4. The authority granted by this Opinion should not become effective until SoCalGas has paid the fees prescribed by §§ 1904(b) and 1904.1.
5. SoCalGas should not use the proceeds from the debt and preferred stock authorized by this Opinion to fund capital projects until it has obtained any required Commission approvals for the projects, including any required environmental review under CEQA.
6. The proposed securities are reasonably required to meet its forecasted 2006 through 2008 capital expenditures that are not reasonably chargeable to operating expenses or to income.
7. The following Order should be effective immediately so that SoCalGas may issue as soon as possible the debt and preferred stock authorized herein.

O R D E R

IT IS ORDERED that:

1. Southern California Gas Company (SoCalGas) is authorized to issue $500 million of new securities consisting of $400 million of new long-term debt and $100 million of new preferred stock to finance capital expenditures, replace maturing debt, and to redeem debt and preferred stock upon terms and conditions consistent with those set forth or contemplated in SoCalGas's application and as described within this decision.

2. SoCalGas may encumber utility property, including accounts receivables, to secure Debt Securities authorized by this order.

3. SoCalGas may enter into interest-rate caps, collars, swaps, hedges, and other financial instruments to manage interest rate risks (collectively, "hedges") to the extent that SoCalGas complies with the conditions enumerated in the body of this Order.

4. SoCalGas is authorized the following exemptions and modifications from the Commission's Competitive Bidding Rules set forth in Resolution No. F-616 for issuance of Securities authorized by this order:

a) Permit telephonic competitive bidding so that SoCalGas may telephonically, or through other electric means such as e-mail, invite the submission of bids and to receive bids by telephone or through other electronic means from two or more underwriters or groups thereof, in lieu of newspaper publication of an invitation for bids and the submission and opening of sealed written bids.

b) Accelerate, postpone or cancel the scheduled date and time for the receipt of bids and/or vary the terms and provisions of the Debt Securities submitted for bid.

c) If appropriate, to reject all bids and to telephonically, or through other electronic means, request resubmission of bids for Debt Securities with the same or other terms and provisions.

d) Eliminate the one-day notice requirement to solicit bids.

5. SoCalGas shall provide compelling evidence to substantiate future exemption requests from the competitive bidding rule.

6. SoCalGas shall remit to the Commission's Fiscal Office a check for $256,000 as required by § 1904(b) of the Public Utilities Code. The decision number of this Order shall appear on the face of the check.

7. The authority granted by this Order shall not become effective until SoCalGas remits $256,000 to the Commission's Fiscal Office.

8. SoCalGas shall comply with all applicable environmental laws and regulations when planning and implementing any capital expenditure programs that are financed, in whole or in part, with the proceeds from the debt and preferred stock authorized by this Order.

9. Application 06-04-004 is closed.

This order is effective today.

Dated July 20, 2006, at San Francisco, California.

MICHAEL R. PEEVEY
President
GEOFFREY F. BROWN
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
Commissioners